

Weekly Trading Education Article

When & Where Time meets Price through Pitchfork Analysis:

A little known trading technique!

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Even if used, for the first time by Dr Alan H. Andrews, in the 1960s, this charting instrument wasn't developed throughout the time, to perform to its full extent. For the last twenty years, it was taken out from the trading arsenal shelves and used for profitable trading techniques. We have consecrated more than 20 years to develop, what we named "*Pitchfork Analysis*", which later was even further upgraded, to finally acquire the rang of "*Integrated Pitchfork Analysis*", a 1200 pages and 1500 charts trilogy professional trading book. For free contents and excerpts, please go to author's website: www.pitchforktrader.com .

The Optimal Pitchfork goes 'hand-in-hand' with the Best Choice of Pivots

In the 1960s, all started with drawing a pitchfork, which is nothing else than a sort of a "*trident*", anchored on a minimum of a three pivots. The pivot is defined, in *Merriam-Webster's Collegiate Dictionary* – 10th edition 2002 - as "*a critical point having a major or central role, function or effect ... a shaft or pin on which something turns*".

The pivots can be drawn on the chart by the trader, a task that requires experience in evaluation the degree of importance of each type of pivot or they can be automatically projected by utilising the ergonomic charting software (*The Tools, the Power, the Knowledge* – Tom Joseph's *Advanced GET User's Guide* from eSignal – 1989-2003).

Their form and deepness/height identify the following four types of pivots (*refer to Fig. 1*):

- *Primary Pivots (P)*, primarily used for detecting the high/low of a trend,
- *Major Pivots (J)* could be rapidly seen, before the trend is completed,
- *Intermediate Pivots (I)*, a kind of a go-between J & M,
- *Minor Pivots (M)*, named also the *pullback pivots*. They *are often* present at the commencement and the termination of the pullbacks.

We should also mention the main functional characteristics of an optimal pivot:

- Be chosen in such a way that the resulting pitchfork will efficiently embed the market flow;
- Be drawn for the duration of a swing or a trend and also
- Be able to reverse a market, every time when this is considered by the trader.



Fig. 1

These pivots are used to construct a pitchfork, in such a way that the market flow will be optimally contained within. This is done through the best choice of pivots, which determines the degree of embedding efficiency.

How to easily construct an Optimal Pitchfork

The physical construction of the pitchfork is easily understood and done, even manually. Each pitchfork needs three pivots in order to be constructed. The construction sequence is usually as it follows: *High-Low-High* or *Low-High-Low*. The initial pivot, frequently marked P0, firmly anchors the structure into the market, thus being named the *anchor*. The other two pivots are usually marked P1 and P2. After we have selected the optimal three-pivot set, we will draw a trend line (*median line – ML*) joining the anchor (P0) to the midpoint of the swing formed by the P1-P2 duo. Once the market builds the current pivot, the trader should anticipate a possible location for the next one.

We can say here that the “*Holy Grail*” of the pitchfork would be an *optimal market description*, otherwise stated: “*The choice of the pivots engenders the efficiency of the pitchfork trading, which in turn is expressed by how well the market flow is described!*”

What are the Pitchfork Characteristics?

With the risk of annoying some of the readers, we have to shortly define several working elements (refer to Fig. 2):

- The *upper and the lower median lines (U-ML & L-ML)*, which are parallel to the median line (ML) whose characteristics are: the *attracting power* of the market price, sort of a *magnet-like effect*; the *market symmetry axis*; the *performing of the test and re-test* of the market price, when *zooming* and *piercing* are absents. The median line can also represent an *ideal location* for the *kinetic energy restoration*.

Thus, the median line becomes the *minimum price objective*. It is one of the best components of the pitchfork and the most powerful in the process of optimally described market flow.

In order to confirm the optimal description of the market flow, we will look for:

- *Multiple tests performed*; as the experienced traders would say: “*The final indicator is a tried and tested trend line*”.
- *Symbiosis between the market price and the median lines* responsible for:
 - *Restored energy* through the energy building rectangles and
 - *Energy consumption* in the process of building huge bars and swings.
- *The parallel trend lines (WL) to the lines bounding the main body of the pitchfork* (noted *U-ML & L-ML* or *U-MLH & L-MLH*), which in turn are themselves parallel to *ML*. *WL* symbol stands for “*warning lines*”, which are parallel and equidistant to *MLHs*. The inter-distance between *ML* and each upper/lower median line, or between the *WL* and any neighbouring *MLH*, may be divided following the Fibonacci ratios, thus creating the Fibonacci trend lines.
- *The trigger line (upper or lower)* links the *P0* anchor with *P1* or *P2* pivots.
- *The parallel sliding line (PH or SH)* passes through a high or a low or even better, through multiple highs/lows. It is drawn parallel to another trend line, which can be a *ML* or its associates, a multi-pivot trend line (also called *un-orthodox trend line* if crosses the market flow) or a traditional trend line (if it doesn't cross the market flow).

Does the Pitchfork improve Market Flow's Visibility?

Figure 2 illustrates a pitchfork, which totally embeds the market flow, from left to right, thus defining the entire *market context*. Thus, it comes naturally to be named the *contextual pitchfork*. We can easily observe in this chart that the most current market flow has tested and re-tested the median line (*ML*) multiple times. The market price closed right on the *ML*, ready to penetrate it within the next opening period, continuing its descent. An attentive look will reveal the multiple tests by the price market of the other lines of the pitchfork.



Fig. 2



Fig. 3

Another useful utilisation of this charting instrument will be the identification of the *regional market* with the *regional pitchfork*. The last, but not the least, the *local pitchfork* identifies the most current market flow. Thus, we have added and drawn on Fig. 3 a *local pitchfork*, which will dictate to trader the most appropriate trading decisions. In our case, the market trend will still remain down-sloping oriented. Please refer to Fig. 4 for a better visualisation!



Fig. 4



Fig. 5

If we take aside the *regional pitchfork*, the trader can see that it is usually located *within the contextual pitchfork*, just before the *local market*. It performs here also the role of the *local pitchfork* (refer to Fig. 5).

The Quest for more Profitable Results?

The novice reader might wonder why we use several pitchforks! Well... The purpose is to detect confluences, which have a high probability of reversing the market, or at least it shows us the coordinates of the next pivotal key-level (refer to Fig. 6).



Fig. 6

On the following charts (refer to Fig. 7 & Fig. 8) we have displayed a working set-up, in our quest for confluences. In this case we have constructed a Schiff pitchfork having its P0 anchor at the midpoint of the swing, preceding the P1-P2 swing. We expect that the market flow will climb all the way to the last high, at 5088 key-level. The market should reach that limit, but for now, we aren't able to specify if it would be at the level of confluence n° 1 or n° 2 (Fig. 7).



Fig. 7



Fig. 8

The market finally reached the 5088 key level (*refer to Fig. 8*), being halted by the confluence n° 2, as we have predicted. The problem now is to get out of the trade... or on the contrary, add new contracts. This will be discussed in another article, concerning money management!

Markets Attitudes

As we already mentioned, the best pitchfork choice would be the one, which fully embeds the market. This implies that in the future – *short-, intermediate- or long-term future* – the market participants' memory will comply with the boundaries derived from the current pitchfork's main body.

Well... If we go even deeper into the comprehension of the optimal use of the pitchfork, we must mention the attitude of the market price, whenever it will be in the proximity of the median line or near one of its acolytes. Whatever the market price will perform, be aware that the trading decisions always rely on the adequate volume for a specific type of characterized move (*see below*).

Zooming through the predominant lines of the pitchfork signals a very high-steamed momentum. As soon as this happens, we will presume that the move will continue for at least 2 bars... with one condition! The allocated volume of this volatile breaking bar must have an increased volume, usually bigger than 3 to 5 times the average true range [ATR (14)] of the operational time frame. If this doesn't occur, we must expect a return to at least the initial location, if not even farther back.

Testing implies a pinpointed touch of the price on the support/resistance (S/R) level. It is normally setting-up a low risk high probability trade. The trader expects the price to shortly halt or even more, to reverse the current trend. This will give you the key of the location where it will be the market heading in the immediate future.

Re-Testing is the rich parent of *Testing*. Easy to understand, it happens when multiple tests occur. The number of tests determines the strength of the S/R trend line. The more numerous the tests, the stronger the S/R trend line will become.

Piercing a median line is rather a *mitigated phenomenon*; its relative importance is located between zooming and testing (*re-testing*). No trade should be set-up with only this element.

Failure signals a probable reversal. The behaviour of the price approaching the median line tells a lot about the strength of the momentum and the farther destination of the market flow. If the market price can't reach the median line, turning back earlier, it forms a *failure*, sort of a *cut-off momentum* move. In this case we say that the *price failed* to reach the median line.

Particular Types of Pitchfork

Once that we have found the optimal pivots, the construction of the pitchfork comes in easily. But... What if the found pivots aren't suitable for an adequate pitchfork?

In that case we can surely employ the Action-and-Reaction set-up, the multi-story channels and the single-story channel divided into Fibonacci guided ratio inner lines.

A few specific pitchforks can also be constructed: "*T-pitchfork*" and "*Reverse Pitchfork*".



Fig. 9

As the trader can observe the “*T-Pitchfork*” on the chart in Fig. 9, the drawing of this type of pitchfork comes with experience. It is an original version created by us, seldom seen, and it is a very powerful charting tool. Its construction is based on the time-and-price (T/P) relationship. We can say that the T/P coordinates of the P0 anchor are [0.382; 0.382] with regard to the *AB* virtual segment. For further description, please refer to the free contents and excerpts of our trilogy books, at author’s website.



Fig. 10

The type of pitchfork, illustrated in Fig. 10 and named “*Reverse Pitchfork*”, is not frequently used because it is little known, in spite of its efficiency. It is a great aid in revealing the incoming reversal, a failure or, on the contrary, a continuation movement of the market price. It covers the immediate and the intermediate past periods and then it synchronizes it with the immediate and intermediate future market movements. It has the magic of projecting futures moves.

We have set-up the P0-P1-P2 backward looking pitchforks sequence, which is ready to project into the future the inherent market vibration ratios of the immediate past. We have drawn the first level of the lower warning line, delimited by the two arrows. This measured height can lead the market momentum, for some time, far into the future.

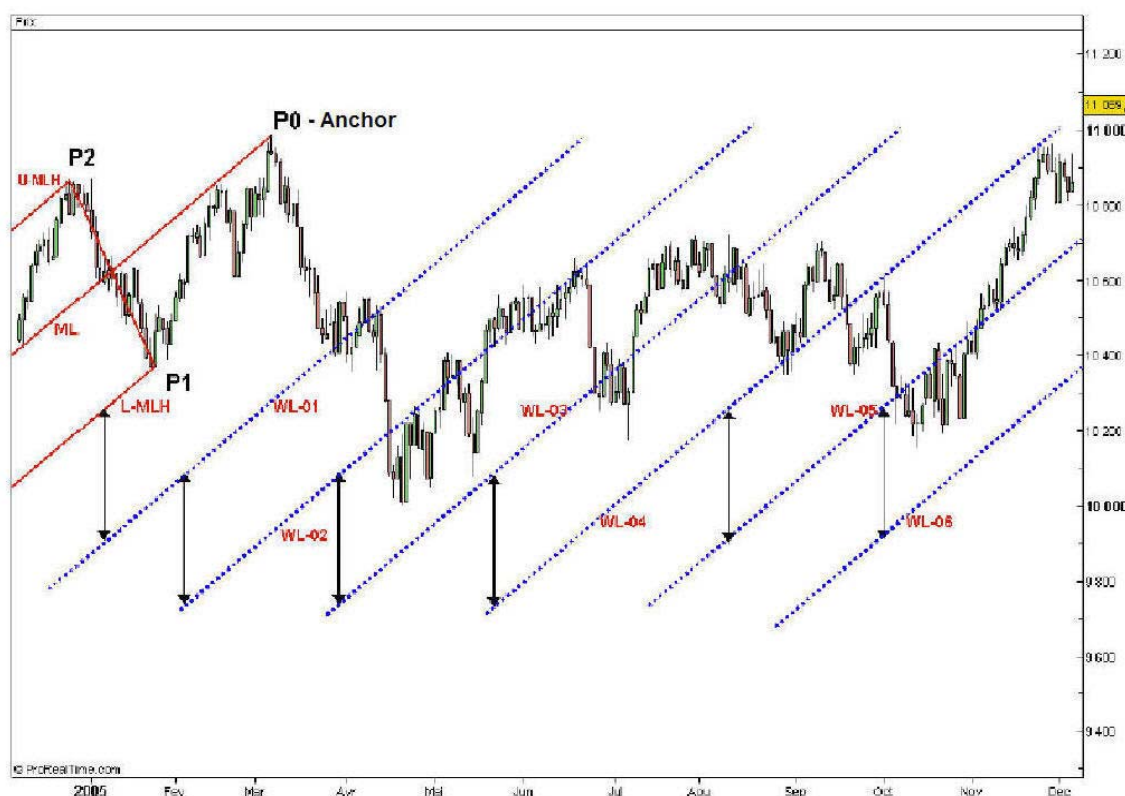


Fig. 11

As we predicted (refer to Fig. 10 and 11), the “*Reverse Pitchfork*” has faithfully and closely guided the market flow, from March to August, almost six months, from one warning line to another. What it is even more amazing is that in spite of a seemingly chaotic market up, down or sideways movements, the market returned exactly at its last highest high, where the P0 anchor of the “*Reverse Pitchfork*” is located.

If we try now to conclude the outcome and the benefits of “*Pitchfork Analysis*”, we realize that we are close to a perfect charting instrument that uses, not only the price, but also the time.

If we have to remember just one thing in this article, it will be Mr. Michael S. Jenkins’ principle “...trading is a game of strategy and just buying or selling everyday is only a 50/50 bet. If you wait for a time cycle or a “square out” then the odds can be 80% in your favor...”

If we can go even further by saying that this type of analysis associated with the state-of-the-art techniques like: Elliott waves, Gann methodology and Jenkins original time-and-price charting tools, then we realize that it is possible to unveil some of the ‘secrets’ of the market flow chaos, turning it into a disciplined, organized and tradable market.

We tried to do this association by creating and developing the “*Integrated Pitchfork Analysis*”. For us, it all began in 1987, and we still remain an eternal student of the markets.

We would like to express here all our admiration for Ms Dawn Bolton-Smith, the matriarch of technical analysis, a life-member of the Australian Technical Analysts Association (ATAA), who, in spite of being into her eighth age decade is still doing her market analysis using the Gann charts by hand, on millimetric paper and teaching the young generation. We had the pleasure to host her in our Paris offices, and we were delighted by the reciprocal exchanged experience, we had both acquired. What better example of the eternal student of the markets...?

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